Altisource Portfolio Solutions S.A.
Form 10-Q
October 22, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-34354

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Exact name of Registrant as specified in its Charter)

Luxembourg (State or other jurisdiction of incorporation or organization)	98-0554932 (I.R.S. Employer Identification No.)

40, avenue Monterey
L-2163 Luxembourg
Grand Duchy of Luxembourg
(Address of principal executive offices) (Zip Code)

(352) 24 69 79 00
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 20, 2015, there were 19,298,492 outstanding shares of the registrant's shares of beneficial interest (excluding 6,114,256 shares held as treasury stock).

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PART I. FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$150,147	$161,361
Accounts receivable, net	128,897	112,183
Prepaid expenses and other current assets	21,708	23,567
Deferred tax assets, net	4,987	4,987
Total current assets	305,739	302,098
Premises and equipment, net	122,416	127,759
Goodwill	121,091	90,851
Intangible assets, net	217,251	245,246
Other assets	20,556	22,267
Total assets	$787,053	$788,221
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$86,439	$111,766
Current portion of long-term debt	5,945	5,945
Deferred revenue	9,421	9,829
Other current liabilities	15,414	13,227
Total current liabilities	117,219	140,767
Long-term debt, less current portion	551,691	582,669
Deferred tax liabilities, net	2,748	2,694
Other non-current liabilities	17,899	20,648
Commitments, contingencies and regulatory matters (Note 20)		
Equity:		
Common stock ($1.00 par value; 25,413 shares authorized and issued and 19,051 outstanding as of September 30, 2015; 25,413 shares authorized and issued and 20,279 outstanding as of December 31, 2014)	25,413	25,413
Additional paid-in capital	94,767	91,509
Retained earnings	430,995	367,967
Treasury stock, at cost (6,362 shares as of September 30, 2015 and 5,134 shares as of December 31, 2014)	(455,041)	(444,495)
Altisource equity	96,134	40,394
Non-controlling interests	1,362	1,049

Total equity	97,496	41,443
Total liabilities and equity	$787,053	$788,221

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	$272,776	$287,688	$781,579	$823,029
Cost of revenue	173,850	188,724	514,835	520,528
Gross profit	98,926	98,964	266,744	302,501
Selling, general and administrative expenses	51,338	46,748	147,719	139,303
Income from operations	47,588	52,216	119,025	163,198
Other income (expense), net:				
Interest expense	(7,041)	(6,480)	(21,396)	(16,040)
Loss on sale of HLSS equity securities, net of dividends received	—	—	(1,854)	—
Other income (expense), net	653	131	1,477	135
Total other income (expense), net	(6,388)	(6,349)	(21,773)	(15,905)
Income before income taxes and non-controlling interests	41,200	45,867	97,252	147,293
Income tax provision	(3,303)	(2,752)	(8,101)	(9,300)
Net income	37,897	43,115	89,151	137,993
Net income attributable to non-controlling interests	(851)	(828)	(2,457)	(1,974)
Net income attributable to Altisource	$37,046	$42,287	$86,694	$136,019
Earnings per share:				
Basic	$1.94	$1.96	$4.42	$6.16
Diluted	$1.82	$1.79	$4.19	$5.63
Weighted average shares outstanding:				
Basic	19,091	21,626	19,608	22,071
Diluted	20,411	23,640	20,688	24,152
Transactions with related parties included above:				
Revenue	See Note 3	$178,151	See Note 3	$502,736
Cost of revenue	See Note 3	11,062	See Note 3	27,904
Selling, general and administrative expenses	See Note 3	267	See Note 3	(464)

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Altisource Equity						
	Common stock		Additional paid-in capital	Retained earnings	Treasury stock, at cost	Non-controlling interests	Total
	Shares						
Balance, December 31, 2013	25,413	$25,413	$89,273	$239,561	$(197,548)	$ 1,042	$157,741
Net income	—	—	—	136,019	—	1,974	137,993
Distributions to non-controlling interest holders	—	—	—	—	—	(1,813)	(1,813)
Share-based compensation expense	—	—	1,638	—	—	—	1,638
Exercise of stock options	—	—	—	(5,628)	8,151	—	2,523
Repurchase of shares	—	—	—	—	(208,820)	—	(208,820)
Balance, September 30, 2014	25,413	$25,413	$90,911	$369,952	$(398,217)	$ 1,203	$89,262
Balance, December 31, 2014	25,413	$25,413	$91,509	$367,967	$(444,495)	$ 1,049	$41,443
Net income	—	—	—	86,694	—	2,457	89,151
Distributions to non-controlling interest holders	—	—	—	—	—	(2,144)	(2,144)
Share-based compensation expense	—	—	3,258	—	—	—	3,258
Exercise of stock options	—	—	—	(2,054)	2,386	—	332
Issuance of restricted shares for CastleLine acquisition	—	—	—	(21,612)	36,039	—	14,427
Repurchase of shares	—	—	—	—	(48,971)	—	(48,971)
Balance, September 30, 2015	25,413	$25,413	$94,767	$430,995	$(455,041)	$ 1,362	$97,496

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash flows from operating activities:		
Net income	$89,151	$137,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,637	21,086
Amortization of intangible assets	27,995	29,290
Goodwill impairment	—	37,473
Loss on sale of HLSS equity securities, net of dividends received	1,854	—
Change in the fair value of acquisition related contingent consideration	(7,302)	(37,924)
Share-based compensation expense	3,258	1,638
Bad debt expense	3,477	4,667
Gain on early extinguishment of debt	(1,986)	—
Amortization of debt discount	379	191
Amortization of debt issuance costs	1,045	799
Deferred income taxes	54	464
Loss on disposal of fixed assets	50	98
Changes in operating assets and liabilities:		
Accounts receivable	(19,681)	(58,725)
Prepaid expenses and other current assets	2,001	(6,525)
Other assets	2,085	(1,656)
Accounts payable and accrued expenses	(20,876)	14,968
Other current and non-current liabilities	10	(18,141)
Net cash provided by operating activities	109,151	125,696
Cash flows from investing activities:		
Additions to premises and equipment	(27,670)	(48,119)
Acquisition of businesses, net of cash acquired	(11,193)	(14,931)
Purchase of HLSS equity securities	(29,966)	—
Proceeds received from sale of and dividends from HLSS equity securities	28,112	—
Other investing activities	722	(294)
Net cash used in investing activities	(39,995)	(63,344)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	198,000
Repurchases and repayment of long-term debt	(29,087)	(3,474)
Debt issuance costs	—	(2,608)
Proceeds from stock option exercises	332	2,523
Purchase of treasury stock	(48,971)	(208,820)
Distributions to non-controlling interests	(2,144)	(1,813)
Other financing activities	(500)	—
Net cash used in financing activities	(80,370)	(16,192)
Net (decrease) increase in cash and cash equivalents	(11,214)	46,160
Cash and cash equivalents at the beginning of the period	161,361	130,429

Cash and cash equivalents at the end of the period	$150,147	$176,589
Supplemental cash flow information:		
Interest paid	$19,770	$15,049
Income taxes paid, net	6,638	12,112
Non-cash investing and financing activities:		
Acquisition of businesses with restricted shares	$14,427	$—
(Decrease) increase in payables for purchases of premises and equipment	(5,326)	482
Decrease in acquisition of businesses from subsequent working capital true-ups	—	(3,711)

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as “Altisource,” the “Company,” “we,” “us” or “our”), is a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource’s proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.

We are incorporated under the laws of Luxembourg and are publicly traded on the NASDAQ Global Select Market under the symbol “ASPS.”
We conduct our operations through three reportable segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures and eliminations separately (see Note 21 for a description of our business segments).

Basis of Presentation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, these financial statements do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany and inter-segment transactions and accounts have been eliminated in consolidation. Certain prior year amounts reported by the Mortgage Services and Technology Services segments have been reclassified to conform with the current year presentation.

The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource, serves as the manager of Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® mortgage cooperative (“Lenders One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025. The management agreement between MPA and Lenders One, pursuant to which MPA is the management company of Lenders One, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact Lenders One’s economic performance and the right to receive benefits from Lenders One. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of September 30, 2015, Lenders One had total assets of $4.2 million and total liabilities of $2.9 million. As of December 31, 2014, Lenders One had total assets of $7.7 million and total liabilities of $6.7 million.

In September 2014, Best Partners Mortgage Brokers Cooperative, Inc. was launched, doing business as the Wholesale One™ Mortgage Cooperative (“Wholesale One”), for the wholesale mortgage industry. Wholesale One assists mortgage brokers and wholesale lenders with tools to improve their businesses. In April 2015, Best Partners Residential Investor

Cooperative, Inc. was launched, doing business as the Residential Investor One™ cooperative ("Residential Investor One"). Residential Investor One was formed to deliver savings and efficiencies to individual and institutional residential real estate investors. MPA provides services to both Wholesale One and Residential Investor One under management agreements that end on July 8, 2039 (with automatic renewals for three successive five year periods) and March 12, 2040 (with automatic renewals for three successive five year periods), respectively. Such management agreements between MPA and the respective cooperative, together with the membership agreements that each of the members signs with the respective cooperative upon joining, represent variable interests in variable interest entities. MPA is the primary beneficiary of Wholesale One and Residential Investor One as it has the power to direct the activities that most significantly impact the economic performance of Wholesale One and Residential Investor One and the right to receive benefits from Wholesale One and Residential Investor One. As a result, Wholesale One and Residential Investor One are presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of September 30, 2015, Wholesale One and Residential Investor One each had less than $0.1 million in total assets and less than $0.1 million in total liabilities.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015, which contains a summary of our significant accounting policies. Certain footnote detail in the Form 10-K is omitted from the information included herein.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 — Quoted prices in active markets for identical assets and liabilities
Level 2 — Observable inputs other than quoted prices included in Level 1
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Future Adoption of New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, in response to stakeholders' requests to defer the effective date of ASU 2014-09 and in consideration of feedback received through extensive outreach with preparers, practitioners and users of financial statements, the FASB deferred the effective date for all entities by one year. This new standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

In February 2015, FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This standard addresses the consolidation of certain legal entities relative to current requirements under GAAP of a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the year that includes that interim period. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

In April 2015, FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

In September 2015, FASB issued ASU No. 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This standard requires that adjustments to provisional amounts that are identified during measurement period are recognized in the reporting period in which the adjustment amounts are determined rather than recognizing the adjustments retrospectively. The standard also requires that the acquirer records, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

NOTE 2 — CUSTOMER CONCENTRATION

Ocwen Financial Corporation together with its subsidiaries (“Ocwen”) is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments to master services agreements (collectively, the “Service Agreements”) with terms extending through August 2025. Certain of the Service Agreements, among other things, contain a “most favored nation” provision and the parties to the Service Agreements have the right to renegotiate pricing. The Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource’s services with respect to the Homeward Residential, Inc. and Residential Capital, LLC portfolios. In addition, Ocwen purchases certain origination services from Altisource under an agreement that extends through January 2017. We settle amounts with Ocwen on a daily, weekly or monthly basis depending upon the nature of the service and when the service is provided.

Revenue from Ocwen primarily consists of revenue earned directly from Ocwen and revenue earned from the loans serviced by Ocwen when Ocwen designates us as the service provider. Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Mortgage Services	64 %	65 %	63 %	66 %
Financial Services	16 %	31 %	20 %	28 %
Technology Services	51 %	42 %	52 %	40 %
Consolidated revenue	60 %	60 %	59 %	60 %

For the nine months ended September 30, 2015 and 2014, we generated revenue from Ocwen of $464.8 million and $491.6 million, respectively ($163.8 million and $171.8 million for the third quarter of 2015 and 2014, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales, residential property valuation, trustee management services, property inspection, property preservation and insurance services. Services provided to Ocwen and reported in the Financial Services segment included charge-off mortgage collections. Services provided to Ocwen and reported in the Technology Services segment included information technology infrastructure management and software applications including our software platforms. As of September 30, 2015, accounts receivable from Ocwen totaled $49.7 million, $34.2 million of which is billed and $15.5 million of which is unbilled (See Note 7).

We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen selects Altisource as the service provider. For the nine months ended September 30, 2015 and 2014, we recognized revenue of $164.7 million and $202.6 million, respectively ($56.7 million and $69.5 million for the third quarter of 2015 and 2014, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen selected Altisource as the service provider. These amounts are not included in arriving at revenue from Ocwen as a percentage of revenue in the table above.

NOTE 3 — TRANSACTIONS WITH RELATED PARTIES

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen and Chairman of each of Home Loan Servicing Solutions, Ltd. (“HLSS”), Altisource Residential Corporation (“Residential”) and Altisource Asset Management Corporation (“AAMC”). Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, HLSS, Residential and AAMC and is no longer a member of the Board of Directors for any of these companies. Consequently, these companies are no longer related parties of Altisource, as defined by FASB Accounting Standards Codification (“ASC”) Topic 850, Related Party Disclosures. The disclosures in this note are limited to the periods that each of Ocwen, HLSS, Residential and AAMC were related parties of Altisource and are not necessarily reflective of current activities with these former related parties.

Ocwen

Revenue
For the nine months ended September 30, 2014 and the third quarter of 2014, we generated revenue from Ocwen of $491.6 million and $171.8 million, respectively. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Ocwen of $22.9 million. Services provided to Ocwen during such periods included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation, insurance services, charge-off mortgage collections, information technology infrastructure management and software applications including our software platforms. As of December 31, 2014, accounts receivable from Ocwen totaled $37.4 million, $22.8 million of which is billed and $14.6 million of which is unbilled (see Note 7).

We record revenue we earn from Ocwen under the Service Agreements at rates we believe to be comparable market rates as we believe they are consistent with the fees we charge to other customers and/or fees charged by our competitors for comparable services.

Cost of Revenue and Selling, General and Administrative Expenses

At times, we have used Ocwen's contractors and/or employees to support Altisource related services. Ocwen generally bills us for these contractors and/or employees based on their fully-allocated cost. Additionally, through March 31, 2015, we purchased certain data relating to Ocwen's servicing portfolio in connection with a Data Access and Services Agreement. Based upon our previously provided notice, the Data Access and Services Agreement was terminated effective March 31, 2015. For the nine months ended September 30, 2014 and third quarter of 2014, Ocwen billed us $27.9 million and $11.1 million, respectively, for these items. For the period from January 1, 2015 through January 16, 2015, we estimate that we incurred $1.9 million of expenses related to these items. These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations.

We provide certain other services to Ocwen and Ocwen provides certain other services to us in connection with Support Services Agreements. These services included such areas as human resources, vendor management, vendor oversight, corporate services, facilities related services, quality assurance, quantitative analytics, tax and treasury. Billings for these services were generally based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service or estimates thereof. For the nine months ended September 30, 2014 and the third quarter of 2014, we billed Ocwen $3.4 million and $1.2 million, respectively, for these items. For the nine months ended September 30, 2014 and the third quarter of 2014, Ocwen billed us $4.3 million and $1.9 million, respectively, for these items. Of the January 2015 billings to Ocwen, we estimate that $0.1 million relates to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimate that $0.3 million relates to the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

As of December 31, 2014, accounts payable and accrued expenses payable to Ocwen totaled $11.6 million (see Note 12).

HLSS

Prior to April 2015, HLSS was a publicly traded company whose primary objective was the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. We provided HLSS certain finance, human resources, tax and facilities services and sold information technology services to HLSS under a support services agreement. For the nine months ended September 30, 2014 and third quarter of 2014, we billed HLSS $0.7 million and $0.2 million, respectively. For the period from January 1, 2015 through January 16, 2015, our billings to HLSS were immaterial. These amounts are reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations. As of December 31, 2014, accounts receivable from HLSS was $0.1 million (see Note 7).

Residential and AAMC

Residential and AAMC were separated from Altisource on December 21, 2012, their equity was distributed to our shareholders on December 24, 2012 and they are each separate publicly traded companies. Residential is focused on acquiring and managing single family rental properties throughout the United States. Residential has historically acquired its rental properties primarily through the acquisition of sub-performing and non-performing mortgage loan portfolios. However, given evolving market conditions, commencing in the second quarter of 2015, Residential expanded its acquisition strategy to opportunistically acquire portfolios of single family rental properties. Residential also commenced a program to begin purchasing real estate owned (“REO”) properties on a one-by-one basis sourcing listed properties from the Multiple Listing Service and alternative listing sources. AAMC's primary business is to provide portfolio management and corporate governance services to investment vehicles that own real estate assets. Currently, AAMC's primary client is Residential.

For purposes of governing certain ongoing relationships between Altisource, Residential and AAMC, we entered into certain agreements with Residential and AAMC. We have agreements, which extend through 2027, to provide Residential with renovation management, lease management, property management and REO asset management services. In addition, we have agreements with Residential and AAMC pursuant to which we may provide services such as finance, human resources, facilities, technology and insurance risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.

For the nine months ended September 30, 2014 and the third quarter of 2014, we generated revenue from Residential of $8.9 million and $4.2 million, respectively, under these services agreements. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Residential of $1.0 million. These amounts are reflected in revenue in the condensed consolidated statements of operations. This excludes revenue from services we provide to Residential's loans serviced by Ocwen or other loan servicers where we are retained by Ocwen or Residential's other loan servicers. The revenue associated with Residential's loans serviced by Ocwen is included in Ocwen related party revenue for the nine months ended September 30, 2014 and the third quarter of 2014. As of December 31, 2014, accounts receivable from Residential was $11.3 million (see Note 7).

For the nine months ended September 30, 2014, we billed AAMC $2.9 million under these services agreements, $2.2 million of which is reflected in revenue and $0.7 million of which is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. For the third quarter of 2014, we billed AAMC $2.3 million under these services agreements, $2.1 million of which is reflected in revenue and $0.2 million of which is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. For the period from January 1, 2015 through January 16, 2015, our billings to AAMC were immaterial. As of December 31, 2014, accounts receivable from AAMC was $0.1 million (see Note 7).

NOTE 4 — ACQUISITIONS

CastleLine Acquisition

On July 17, 2015, we acquired CastleLine Holdings, LLC and its subsidiaries ("CastleLine"), a specialty risk management and insurance services firm. CastleLine provides financial products and services to parties involved in the origination, underwriting, purchase and securitization of residential mortgages. The purchase consideration was composed of $12.3 million of cash upon closing, $10.5 million of cash payable over four years from the acquisition date and 495 thousand shares of restricted common stock of the Company with a value of $14.4 million as of the closing date. Of the cash payable following acquisition, $3.8 million is contingent on certain future employment conditions of certain of the sellers, and therefore excluded from the purchase price. The CastleLine acquisition is not material in relation to the Company's results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Cash	$ 1,088
Accounts receivable, net	510
Prepaid expenses	66
Restricted cash	2,501
Goodwill	30,240
	34,405
Accounts payable and accrued expenses	(962)
Purchase price	$ 33,443

Mortgage Builder Acquisition

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder") pursuant to a Purchase and Sale Agreement dated July 18, 2014 (the "Purchase and Sale Agreement"). Mortgage Builder is a provider of residential mortgage loan origination and servicing software systems. Pursuant to the terms of the Purchase and Sale Agreement, we paid $15.7 million at closing in cash (net of closing working capital adjustments). Additionally, the Purchase and Sale Agreement provides for the payment of up to $7.0 million in potential additional consideration (the “MB Earn-Out”) based on Adjusted Revenue (as defined in the Purchase and Sale Agreement) in the three consecutive 12-month periods following closing. At closing, we estimated the fair value of the MB Earn-Out to be $1.6 million determined based on the present value of future estimated MB Earn-Out payments. After the acquisition date, the allocation of the purchase price was adjusted based upon information that subsequently became available relating to acquisition date working capital, resulting in an obligation of the sellers to pay the Company $0.2 million. The Mortgage Builder acquisition and the adjustment to the preliminary allocation of the purchase price are not material in relation to the Company’s results of operations or financial position.

The final adjusted allocation of the purchase price is as follows:
(in thousands)

Cash	$668
Accounts receivable, net	1,102
Prepaid expenses	38
Premises and equipment, net	553
Software	1,509
Trademarks and trade names	209
Customer relationship	4,824
Goodwill	9,135
	18,038
Accounts payable and accrued expenses	(950)
Purchase price	$17,088

Owners Acquisition

On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC (“Owners”). Owners is a self-directed online real estate marketplace. We paid $19.8 million at closing in cash and agreed to pay additional contingent consideration of up to an additional $7.0 million over two years following the closing (“Owners Earn Out”), based on Adjusted Revenue (as defined in the purchase agreement). At closing, we estimated the fair value of the Owners Earn Out to be $1.9 million determined based on the present value of future estimated Owners Earn Out payments. The Owners acquisition is not material in relation to the Company’s results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Accounts receivable, net	$41
Prepaid expenses	32
Software	501
Trademarks and trade names	1,431
Goodwill	19,775

	21,780
Accounts payable	(41)
Purchase price	$21,739

See Note 22 for information about acquisitions subsequent to September 30, 2015.

NOTE 5 — FAIR VALUE

Fair Value Measurements on a Recurring Basis

In accordance with FASB ASC Topic 805, Business Combinations, the liability for contingent consideration is reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with the acquisitions of Equator, LLC ("Equator") in 2013, Mortgage Builder and Owners in 2014 and CastleLine in 2015. As of September 30, 2015 and December 31, 2014, the fair value of acquisition

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related contingent consideration was $3.8 million and $11.6 million, respectively (see Note 14). We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which include sensitivities pertaining to discount rates and financial projections. There were no transfers between different levels during the periods presented.

During the second quarter of 2015, we reached an agreement with the former owners of Equator to extinguish any liability for Equator related contingent consideration ("Equator Earn Out") in exchange for $0.5 million. In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings. This transaction is reflected as a reduction in selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

During the second quarter of 2014, the fair value of the Equator Earn Out was reduced by $37.9 million with a corresponding increase in earnings based on management's revised estimates that expected earnings of Equator were lower than projected at the time of acquisition. The reduction in fair value is reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments held by the Company at September 30, 2015 and December 31, 2014 that are not carried at fair value. The fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

	September 30, 2015				December 31, 2014			
(in thousands)	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	$150,147	$150,147	$—	$—	$161,361	$161,361	$—	$—
Restricted cash	4,801	4,801	—	—	3,022	3,022	—	—
Long-term debt	560,084	—	498,475	—	591,543	—	467,319	—

Our financial assets and liabilities primarily include cash and cash equivalents, restricted cash and long-term debt. Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments and were measured using Level 1 inputs. The fair value of our long-term debt is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.

NOTE 6 — AVAILABLE FOR SALE SECURITIES - INVESTMENT IN HLSS

From March 10, 2015 to March 17, 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million (1,613,125 shares at an average price per share of $18.58). This investment was classified as available for sale. Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we record a charge to earnings and a new cost basis in the investment is established.

On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. (“NRZ”) and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million. Between April 22, 2015 and April 29, 2015, we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million (1,613,125 shares at an average price per share of $4.75). As a result of these transactions, we recognized a net loss of $1.9 million for the nine months ended September 30, 2015 (no comparative amount for the nine months ended September 30, 2014) in connection with our investment in HLSS.

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